

Monday, July 8, 2024



HALLGARTEN + COMPANY

Portfolio Strategy

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Model Resources Portfolio: Shipping Lanes Matter

Performance Review – June 2024

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Model Resources Portfolio

Shipping Lanes Matter

- + The West is now in a *sotto voce* arms race that is likely to become louder, with the focus swinging to military metals
- + Both Gold and Silver have been performing strongly in recent weeks
- + Antimony touched \$34,000 per tonne and Tin at over \$33,000 per tonne
- + Base metals are firmer, particularly Zinc
- + Argentina's mega reform project finally passed both houses, though with some concessions
- ✗ Explorers are refusing to change their ways and instead blame investors for not wanting to invest in deadbeat managements
- ✗ The TSX-V has several hundred explorers that are now surplus to requirements
- ✗ Uranium promoters are appearing out of the woodwork with third tier poor quality fringe projects
- ✗ Shipping disruption in the Red Sea is now quasi-permanent

When Push Comes to Shove

The conventional wisdom, if its all that wise, is that the touchpaper for conflict with China is Taiwan. However, recent events in the South China Sea raise the possibility that something more accidental may trigger a conflict with actual engagements having taken place between China and the Philippines over disputed "islands" in the nebulous border zones between the two countries. Other countries with differences with China over where the maritime borders lie include Vietnam, Indonesia and Brunei.

The most recent shoving match, which resulted in a sailor's finger becoming a casualty, had echoes of the encounters between Chinese fishing boats and the Japanese Coastguard that resulted in Japan being put on China's blacklist for Rare Earths exports for a while.



Source: Reuters/GCaptain.com

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These encounters might easily be dismissed as muscle-flexing but the potential is ever-present and growing that an accidental event could transpire that leads to a shooting war. Such is the bellicosity of China's advance on these territories and its up close and personal encounters with the ships of the nations that dispute its claims. We should not forget that it was the unexpected assassination of Archduke Franz Ferdinand that sent the European nations barreling into World War I.

The Filipinos feel that the US should be lining up behind them, as it does with Taiwan, but the US is so far offering moral support and offering the same generalized international statements that the main maritime border authorities have classified China's claims as baseless. The government in the Philippines is not minded to take lying down the Chinese kicking sand in its face.



The question is what will happen should bullets start flying in this dispute and who will fire them first? Then what will be the implications? Who else should join in? The Philippines currently is a supplier of nickel of varying grades to China. That shall presumably stop. What degree of solidarity will be shown by other ASEAN members? While not a military alliance, it would not be done for Indonesia, say, to up its nickel exports to China to make up for the Philippines refusing to sell product. What happens to Chinese

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assets in the Philippines? What would the Japanese attitude be as they have many processing plants in the Philippines? And what happens to shipping through the South China Sea if it becomes a war zone?

It is interesting to ponder these issues because the only major naval engagements since WW2 have been the localized (and very successful) activities recently of the Houthis in the Red Sea and the Ukrainians ravaging the Russian navy in the Black Sea. What if the Philippines said that no ships destined for Chinese ports could traverse its waters? These would be perfectly admissible in a war-like scenario. Just think, for instance, of all that product from South Africa (chromite and manganese) that traverses this route. Would Australia find it acceptable to be sending potentially military-purposed minerals (even iron ore) to China if a shooting war broke out.

All sorts of questions potentially arise here for metals producers and investors therein.

Portfolio Changes

During the month of June there were no additions to the Model Resources Portfolio. We closed out the LONG positions in Sherritt International and Vanadium Resources.

Peak Rare Earths – More than Meets the Eye

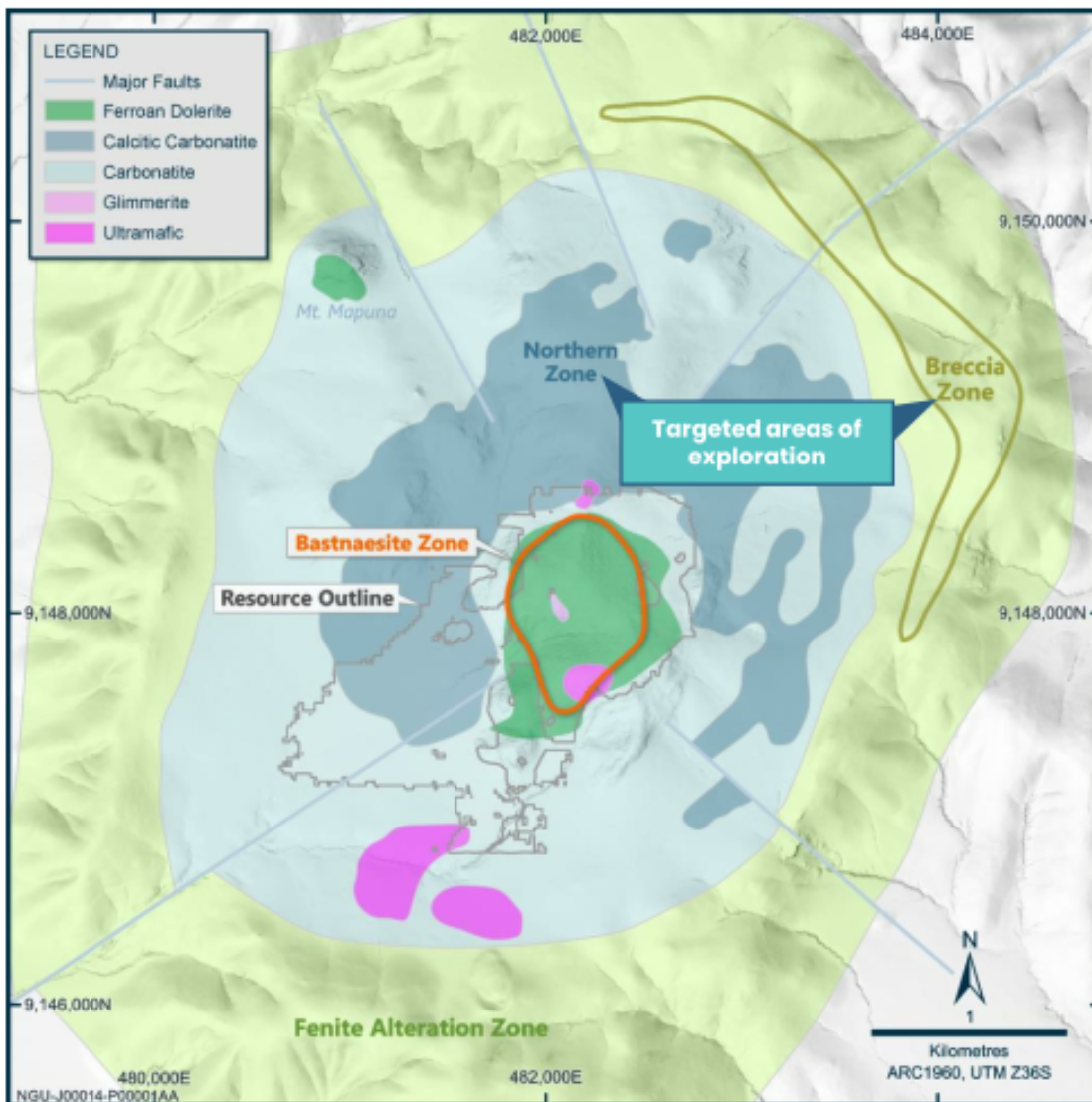
This company has held the Ngualla Rare Earth project in Tanzania for ages, so we shall not expound on that as we covered it in an [Initiation in 2016](#). The stock has come again into our line of sight due to the other metals on its patch in Tanzania, namely Fluorspar and Phosphate. The company also claims Niobium as an interesting showing here but our view is that Nb is not a metal with any characteristics of criticality, but it is certainly one which the Chinese have no leverage and thus might express an interest.

Fluorspar has long been a subject of interest for us. The fluorite mineralisation is located in the ring of hills formed by the alteration halo that surrounds the intrusive Ngualla Carbonatite. Fluorite and REE mineralisation occur within this fenite alteration in a structural zone of brecciation and associated carbonatite dykes that can be traced over a strike length of 3.7km. The fluorspar is weathered at surface in some areas but gives a distinctive and recognisable texture.

Its recent assay results are from two areas tested by a 2017 trenching program. In the southern area, the new results have extended the zone of fluorspar mineralisation defined by trenching to a total strike length of 550m. Results from NCS013 indicate a horizontal width of up to 170m. The fluorspar varies in intensity and the banding indicates a subvertical dip.

As can be noted from the map below there are two areas being targeted for exploration due to the presence of these commodities.

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The company announced in February of 2024 the results of analysis of trench samples from the Breccia Zone covering 344 samples assayed from nine trenches across the ~3.7km extent of the Breccia Zone. These assays showed extensive high-grade fluor spar mineralisation across the entire ~3.7km Breccia Zone extent, with key intercepts including:

- NC010: 70m (EOT) at 36% CaF₂ from 0m
- NCS013: 114m at 46% CaF₂ from 32m, including 44m at 65% CaF₂ from 80m
- NCS020: 34m at 39% CaF₂ from 42m including 8m at 68% CaF₂ from 64m

These excellent grades coming from a company that “gets it” as far as the importance of Fluorspar is concerned makes this company one to watch. In an increasingly crowded (and looming unprofitable)

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Rare Earth sector, the presence of a major Fluorspar resource could provide Peak with a new *raison d'être*, in turn liberating it from having to do deals with the likes of Shenghe.

The Shenghe Deal

In early August of 2023, it was announced that it would supply all of the REE concentrate from its Ngualla project to the Singapore-based unit of China's Shenghe Resources, which owns about 19.8% of Peak, will be for an initial term of seven years.

The companies also signed a memorandum of understanding to negotiate a fixed price for the supply deal while working on a funding solution for the project, which according to a BFS published last year would cost US\$321mn million to develop.

The Ngualla project was expected to begin construction by the end of May 2024, with completion eyed in early 2026. However, we have to wonder how realistic a timetable that might be in light of the legs having been sawn off the Rare Earth sector by, ironically, the Chinese.

The MoU has an option for Shenghe to buy a non-controlling stake at the project level to substantially reduce Peak's funding requirements.

Other requirements for the deal to gain legs include:

- approval by Peak shareholders and the Tanzanian Mining Commission

Attractions include:

- an offtake agreement provides the Ngualla Project with a complete offtake solution covering 100% of REE concentrate
- a take-or-pay structure

The deal has an initial seven-year term - subject to Ngualla developing downstream operations over the 7-year term, a minimum of 50% of any intermediate (i.e. MREC) or final separates rare earth oxides (i.e. NdPr Oxide)

The company claims that a recent Special Mining Licence expansion has provided an opportunity to reconfigure the Ngualla Project to support further optimisation of costs and production.

The whole matter has a certain resemblance to the failed transaction related to the ASX-listed Vital Metals deal on the output from the Nechalacho REE project in Canada. That fell afoul of Canada's new measures against Chinese investment in critical minerals.

We have no rating on Peak currently and no target price.

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Sheffield Resources (ASX: SFX) Shucks Off the Blues

In late June, Sheffield managed to dispel some of the gloom that has dogged it since it came out with a warning that oversized material was causing problems in reaching optimal throughput. It provided an update regarding the ramp up of production and shipments from its Thunderbird Mineral Sands Mine.

The disclosure that additional oversize material had resulted in only approximately 75% of the expected spiral feed delivered to the Wet Concentrator Plant (WCP). Changes in the process flow sheets and mining schedules have resulted in the company being able to announce positive news, but the initial negative news sent the stock down from 50cts to 30cts, coming on the heels of the debacle at Strandline Resources (ASX: STA), a similar (but substantially different) story.

The process improvements were modifications to the Dry Mining Unit, undertaken early in the June quarter, enabled sustained improved availability and production performance. Beyond that, the infill drilling program of the near-term mine plan continued and analysis of observed oversize streams and identification of remediation measures are underway.



The key metrics revealed in the latest announcement, that turned the stock price around, were:

- Mine production of approximately 825,000 ore tonnes in June 2024
- June 2024 concentrate production of approximately 55,000 tonnes ilmenite concentrate and 13,000 tonnes zircon concentrate
- Expected concentrate shipments of 90,000 tonnes in June 2024

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- AUD\$7.5mn contributed to KMS for working capital purposes

Mine production at Thunderbird has demonstrated continued month on month production gains, with total ore mined in June 2024 of approximately 825,000 tonnes. For the June 2024 quarter, total ore mined is expected to be approximately 2,200,000 tonnes, approximately 20% higher than the operating rate assumed within the 2022 Bankable Feasibility Study.

The increase in mine production resulted in increased production of concentrates with approximately 55,000 tonnes of ilmenite concentrate produced in June and 120,000 tonnes for the quarter. Production of zircon concentrate was approximately 13,000 tonnes for June and 33,000 tonnes for the quarter.

Recoveries from the WCP and Concentrate Upgrade Plant (CUP) are now in line with, or above design, resulting in higher than design recovery of both ilmenite and zircon concentrates. The net impact of observed higher oversize and higher WCP and CUP recovery is an approximate 85% yield of expected final products from the volume of ore mined. The excess recovery continues to be weighted towards ilmenite concentrate. Plant optimisation and continuous improvement opportunities are now underway with a focus on increasing zircon concentrate recovery.

The unfortunate thing is that the damage has, essentially, been done. It allows cheaper entry for buyers now, but what was a temporary bump in the road moved the stock's trading range 40% lower. Thus, instead of building on the start of production the stock price moves are only recuperating ground lost due to the "oversize disaster". We reiterate our LONG stance on Sheffield with a 12-month target price of 72cts.

Parting Shot

Opinions are divided on the best measurement for valuing royalty companies. One of the most perplexing usages is that of NAV. This measure has several possible origins:

- The underlying mine owners' valuation, which may be cost plus value added, minus depletion (if any), or a valuation from a PEA or PFS
- The royalty company's own assessment of what the NAV is worth (presumably an extrapolation from a PEA or PFS)

But what is the NAV of an unbuilt mine? What is the value of the royalty/stream off that asset is the production is several years in the future and the metals prices prevailing at the time are an utter unknown. Is one setting oneself up for failure/error?

The other main category of listed entities that is oriented towards some other value metric besides one based on earnings is the ETF, but even there the analyst is not trying to determine the underlying NAV for a holding but rather the proportional value of its market cap on a given day or moment and the ETFs premium or discount to that value. Both are moving numbers. NAVs, in contrast, are one of the least dynamic measures.

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Better measures for royalty companies in our opinion are the universal measures for any cash-flowing business such as EPS or EBITA per share or, dare we say it, dividend per share.

Ultimately, by playing the game of valuation by NAV, one is allowing oneself to be measured against miners that are not developed, and/or not cashflowing, and that does the royalty company a disservice because it is their revenue generating nature that is the attraction to investors.

Recent & Upcoming

In the last month we published our Initiation of Noram Lithium and an update on Cobre. In the coming month there should be an Initiation of coverage on Guardian Metal, Aurum Resources and First Nordic. There is also likely a review of mining rules and happenings in Argentina's Chubut province.

MODEL RESOURCES PORTFOLIO @ END JUNE

Security	Ticker	Currency	Price	Change		12-mth Target	
				last 12 mths	last mth		
LONG EQUITIES							
Diversified Large/Mid-Cap	Hochschild	HOC.L	GBP	1.79	130%	-4%	£1.50
Uranium	Sprott Physical Uranium	U.UN.to	CAD	18.56	42%	-10%	\$20.00
	enCore Energy	EU.v	CAD	5.37	53%	-18%	\$4.90
	Energy Fuels	UUUU	USD	6.06	-18%	-13%	\$7.50
Zinc/Lead Plays	WisdomTree Zinc ETF	ZINC.L	USD	9.55	23%	-5%	\$14.00
	Luca Mining	LUCA.v	CAD	0.57	50%	24%	\$0.70
Nickel Developer	Canada Nickel	CNC.v	CAD	1.24	-4%	-13%	\$2.15
Silver Explorer	Southern Silver Exploration	SSV.v	CAD	0.24	33%	-14%	\$0.40
	AbraSilver	ABRA.v	CAD	2.16	293%	-8%	\$0.84
Silver ETF	IShares Silver ETF	SLV	USD	26.57	21%	-4%	\$24.00
Gold Producer	Soma Gold	SOMA.v	CAD	0.52	0%	-4%	\$0.85
	Asante Gold	ASE.cn	CAD	1.16	-41%	-9%	\$2.40
	Orvana Minerals	ORV.to	CAD	0.20	11%	-9%	\$0.60
	Talisker Resources	TSK.to	CAD	0.50	-9%	-4%	\$1.10
Gold/Antimony Developer	Perpetua Resources	PPTA.to	CAD	7.09	9%	-24%	\$7.50
Metallurgical Coal	Colonial Coal	CAD.v	CAD	2.44	54%	-5%	\$2.45
Royalties	EMX Royalties	EMX	USD	1.80	-2%	-7%	\$2.50
Copper Explorers	Panoro Minerals	PML.v	CAD	0.14	0%	0%	\$0.30
	Aldebaran Resources	ALDE.v	CAD	0.98	8%	-11%	\$1.32
Tungsten Producers	Almonty Industries	AII.v	CAD	0.60	-22%	-13%	\$1.10
	EQ Resources	EQR.ax	AUD	0.05	-29%	0%	\$0.08
Graphite Developer	Blencowe Resources	BRES.L	GBP	0.0596	19%	6%	£0.09
	Kingsland	KNG.ax	AUD	0.20	-51%	0%	\$0.45
	Applied Graphite Technologies	AGT.v	CAD	0.14	n/a	-30%	\$0.40

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Security	Ticker	Currency	Price	Change		12-mth Target	
				last 12 mths	last mth		
LONG EQUITIES							
Cobalt	Jervois Global	JRV.ax	AUD	0.02	-71%	0%	\$0.15
Lithium	Neometals	NMT.ax	AUD	0.09	-86%	-25%	\$0.30
	Century Lithium	LCE.v	CAD	0.32	-66%	-14%	\$1.10
Phosphate	MinBos	MNB.ax	AUD	0.00	-100%	-100%	\$0.28
Scandium Developer	Scandium International	SCY.to	CAD	0.20	300%	900%	\$0.10
Gold Explorer	Cabral Gold	CBR.v	CAD	0.25	-11%	-31%	\$0.40
	Gunpoint Exploration	GUN.v	CAD	0.68	21%	3%	\$0.75
	Sanu Gold	SANU.cn	CAD	0.08	-27%	-33%	\$0.18
	Alpha Exploration	ALEX.v	CAD	1.05	50%	-2%	\$1.00
	Desert Gold	DAU.v	CAD	0.06	0%	-14%	\$0.16
AgroMinerals	Millennial Potash	MLP.v	CAD	0.22	-27%	-12%	\$0.32
Rare Earths	Rainbow Rare Earths	RBW.L	GBP	0.103	27%	-9%	£0.30
	Neo Performance Materials	NEO.to	CAD	8.25	0%	21%	\$14.00
Tin	Alphamin	AFM.v	CAD	1.06	28%	-4%	\$1.50
	Rome Resources	RMR.v	CAD	0.17	-39%	-11%	n/a
	Elementos	ELT.ax	AUD	0.13	0%	-7%	\$0.38
Mineral Sands	Sheffield Resources	SFX.ax	AUD	0.35	-26%	-8%	\$0.72
Oil & Gas	Shell	SHEL.L	EURO	28.33	25%	1%	£24.00
SHORT EQUITIES							
Shorts	NioCorp	NB	USD	1.80	-75%	-24%	\$4.00
	Texas Mineral Resources	TMRC	USD	0.23	-76%	-32%	\$0.30
	Golconda Gold	GG.v	CAD	0.26	49%	8%	\$0.15
	Blue Lagoon	BLLG.cn	CAD	0.12	-33%	0%	\$0.05
	Aya Gold & Silver	AYA	CAD	13.58	34%	-10%	\$4.50

Important disclosures

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